

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

HEALTHCARE REALTY TRUST INC

Form 10-Q

November 01, 2018

false--12-31Q320182018-09-300000899749falseLarge Accelerated

Filerfalse0.900.010.013000000003000000001251320001252370001251320001252370000.01100.010.0150000000500000000

0000899749 2018-01-01 2018-09-30 0000899749 2018-10-26 0000899749 2018-09-30 0000899749 2017-12-31

0000899749 2017-01-01 2017-09-30 0000899749 2018-07-01 2018-09-30 0000899749 2017-07-01 2017-09-30

0000899749 hr:CumulativeDividendsMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0000899749 hr:CumulativeDividendsMember

2018-09-30 0000899749 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000899749

hr:CumulativeNetIncomeMember 2018-09-30 0000899749 hr:CumulativeNetIncomeMember 2017-12-31

0000899749 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0000899749 hr:CumulativeDividendsMember 2017-12-31

0000899749 us-gaap:CommonStockMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000899749

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0000899749 us-gaap:CommonStockMember

2017-12-31 0000899749 hr:CumulativeNetIncomeMember 2018-01-01 2018-09-30 0000899749

us-gaap:CommonStockMember 2018-09-30 0000899749 2016-12-31 0000899749 2017-09-30 0000899749

hr:ParkingIncomeMember 2018-07-01 2018-09-30 0000899749 hr:MiscellaneousMember 2018-07-01 2018-09-30

0000899749 hr:RentalLeaseGuarantyMember 2018-01-01 2018-09-30 0000899749 hr:ParkingIncomeMember

2018-01-01 2018-09-30 0000899749 hr:ParkingIncomeMember 2017-01-01 2017-09-30 0000899749

hr:ManagementFeeIncomeMember 2017-07-01 2017-09-30 0000899749 hr:RentalLeaseGuarantyMember

2018-07-01 2018-09-30 0000899749 hr:RentalLeaseGuarantyMember 2017-07-01 2017-09-30 0000899749

hr:RentalLeaseGuarantyMember 2017-01-01 2017-09-30 0000899749 hr:MiscellaneousMember 2017-07-01

2017-09-30 0000899749 hr:ManagementFeeIncomeMember 2018-01-01 2018-09-30 0000899749

hr:MiscellaneousMember 2018-01-01 2018-09-30 0000899749 hr:MiscellaneousMember 2017-01-01 2017-09-30

0000899749 hr:ManagementFeeIncomeMember 2017-01-01 2017-09-30 0000899749

hr:ManagementFeeIncomeMember 2018-07-01 2018-09-30 0000899749 hr:ParkingIncomeMember 2017-07-01

2017-09-30 0000899749 srt:ScenarioPreviouslyReportedMember 2017-01-01 2017-09-30 0000899749

srt:ScenarioPreviouslyReportedMember 2017-07-01 2017-09-30 0000899749 2018-01-01 2018-03-31 0000899749

hr:RealEstateDispositionsMember naics:ZZ812930 2018-06-29 2018-06-29 0000899749 2018-04-26 2018-04-26

0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-05-18 2018-05-18 0000899749

hr:RealEstateAcquisitionsMember 2018-01-01 2018-09-30 0000899749 hr:RealEstateAcquisitionsMember

hr:LandHeldForDevelopmentMember 2018-06-29 0000899749 2018-06-27 2018-06-27 0000899749

hr:RealEstateDispositionsMember str:MI 2018-06-27 2018-06-27 0000899749 hr:RealEstateAcquisitionsMember

hr:MedicalOfficeBuildingMember 2018-06-29 0000899749 hr:RealEstateDispositionsMember naics:ZZ812930

2018-06-29 0000899749 hr:RealEstateDispositionsMember str:MI 2018-06-27 0000899749

us-gaap:SegmentDiscontinuedOperationsMember 2018-09-30 0000899749

us-gaap:SegmentDiscontinuedOperationsMember 2017-12-31 0000899749 hr:RealEstateAcquisitionsMember

str:WA 2018-05-03 2018-05-03 0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-08-24 2018-08-24

0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-05-18 0000899749 hr:RealEstateAcquisitionsMember

str:WA 2018-06-29 0000899749 hr:RealEstateAcquisitionsMember str:OK 2018-05-21 2018-05-21 0000899749

hr:RealEstateAcquisitionsMember str:WA 2018-06-29 2018-06-29 0000899749 hr:RealEstateAcquisitionsMember

2018-09-30 0000899749 hr:RealEstateAcquisitionsMember str:WA 2018-05-03 0000899749

hr:RealEstateAcquisitionsMember str:OK 2018-05-21 0000899749 hr:RealEstateAcquisitionsMember str:CO

2018-08-24 0000899749 hr:RealEstateDispositionsMember str:VA 2018-04-26 0000899749

hr:RealEstateDispositionsMember str:MO 2018-08-30 2018-08-30 0000899749 hr:RealEstateDispositionsMember

str:MO 2018-08-30 0000899749 hr:RealEstateDispositionsMember str:VA 2018-04-26 2018-04-26 0000899749

hr:RealEstateDispositionsMember 2018-09-30 0000899749 hr:RealEstateDispositionsMember 2018-01-01

2018-09-30 0000899749 hr:SeniorNotesdue2023Member us-gaap:SeniorNotesMember 2018-09-30 0000899749

hr:TermLoandue2022Member us-gaap:MediumTermNotesMember 2018-09-30 0000899749

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

hr:MortgageNotesPayableNetMember us-gaap:MortgagesMember 2017-12-31 0000899749
hr:SeniorNotesdue2025Member us-gaap:SeniorNotesMember 2018-09-30 0000899749
hr:SeniorNotesdue2028Member us-gaap:SeniorNotesMember 2018-09-30 0000899749 hr:TermLoandue2022Member
us-gaap:MediumTermNotesMember 2017-12-31 0000899749 hr:MortgageNotesPayableNetMember
us-gaap:MortgagesMember 2018-09-30 0000899749 hr:SeniorNotesdue2025Member us-gaap:SeniorNotesMember
2017-12-31 0000899749 hr:UnsecuredCreditFacilityDue2020Member us-gaap:LineOfCreditMember 2017-12-31
0000899749 hr:UnsecuredCreditFacilityDue2020Member us-gaap:LineOfCreditMember 2018-09-30 0000899749
hr:SeniorNotesdue2023Member us-gaap:SeniorNotesMember 2017-12-31 0000899749
hr:SeniorNotesdue2028Member us-gaap:SeniorNotesMember 2017-12-31 0000899749
hr:SeniorNotesdue2025Member us-gaap:InterestRateSwapMember us-gaap:SeniorNotesMember 2018-01-01
2018-09-30 0000899749 hr:TermLoandue2022Member us-gaap:InterestRateSwapMember
us-gaap:MediumTermNotesMember 2018-09-30 0000899749 hr:TermLoandue2022Member
us-gaap:MediumTermNotesMember 2018-01-01 2018-09-30 0000899749 us-gaap:OtherAssetsMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749 us-gaap:InterestRateSwapMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:InterestRateContractMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30
0000899749 us-gaap:InterestRateContractMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2017-01-01 2017-09-30
0000899749 us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2017-01-01 2017-09-30 0000899749 us-gaap:InterestRateContractMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30 0000899749
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:InterestRateSwapMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2017-01-01 2017-09-30 0000899749 hr:SettledInterestRateSwapMember
2018-09-30 0000899749 hr:ActiveInterestRateSwapsMember 2018-09-30 0000899749
hr:MedicalOfficeBuildingExpansionMember str:NC 2018-09-30 0000899749 hr:MedicalOfficeBuildingMember
str:CO 2018-09-30 0000899749 hr:MedicalOfficeBuildingMember str:NC 2018-09-30 0000899749
us-gaap:EmployeeStockMember 2017-07-01 2017-09-30 0000899749 us-gaap:EmployeeStockMember 2018-01-01
2018-09-30 0000899749 us-gaap:EmployeeStockMember 2018-07-01 2018-09-30 0000899749
us-gaap:EmployeeStockMember 2016-12-31 0000899749 us-gaap:EmployeeStockMember 2017-01-01 2017-09-30
0000899749 us-gaap:EmployeeStockMember 2018-09-30 0000899749 us-gaap:EmployeeStockMember 2018-06-30
0000899749 us-gaap:EmployeeStockMember 2017-09-30 0000899749 us-gaap:EmployeeStockMember 2017-12-31
0000899749 us-gaap:EmployeeStockMember 2017-06-30 0000899749 hr:StockIncentivePlanMember 2018-09-30
0000899749 hr:StockIncentivePlanMember 2018-01-01 2018-09-30 0000899749 hr:StockIncentivePlanMember
2017-01-01 2017-09-30 0000899749 hr:StockIncentivePlanMember 2017-07-01 2017-09-30 0000899749
hr:StockIncentivePlanMember 2017-12-31 0000899749 hr:StockIncentivePlanMember 2017-09-30 0000899749
hr:StockIncentivePlanMember 2018-06-30 0000899749 hr:StockIncentivePlanMember 2018-07-01 2018-09-30
0000899749 hr:StockIncentivePlanMember 2016-12-31 0000899749 hr:StockIncentivePlanMember 2017-06-30
0000899749 us-gaap:RestrictedStockMember hr:StockIncentivePlanMember 2017-01-01 2017-09-30 0000899749
hr:AtTheMarketEquityOfferingProgramMember us-gaap:SubsequentEventMember 2018-10-26 0000899749
us-gaap:RestrictedStockMember hr:StockIncentivePlanMember 2018-01-01 2018-09-30 0000899749
us-gaap:SubsequentEventMember 2018-10-30 2018-10-30 0000899749

hr:AtTheMarketEquityOfferingProgramMember 2018-01-01 2018-09-30 0000899749
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-01-01 2018-09-30
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-12-31
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-09-30
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-01-01
2017-09-30 0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember
2017-09-30 0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember
2016-12-31 0000899749 us-gaap:CommonStockMember 2017-01-01 2017-09-30 0000899749
us-gaap:CommonStockMember 2016-12-31 0000899749
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30
0000899749 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
hr:AmountReclassifiedfromAOCIforSettledDerivativesAttributabletoParentMember 2018-01-01 2018-09-30
0000899749 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
hr:AmountReclassifiedfromAOCIforCurrentDerivativesAttributabletoParentMember 2018-01-01 2018-09-30
0000899749 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0000899749
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0000899749
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-09-30 0000899749
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-09-30 xbrli:pure hr:building iso4217:USD
xbrli:shares xbrli:shares utreg:acre iso4217:USD utreg:sqft hr:state hr:property hr:swap_agreement
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-11852

HEALTHCARE REALTY TRUST INCORPORATED

(Exact name of Registrant as specified in its charter)

Maryland **62 – 1507028**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3310 West End Avenue

Suite 700

Nashville, Tennessee 37203

(Address of principal executive offices)

(615) 269-8175

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 26, 2018, the Registrant had 125,237,283 shares of Common Stock outstanding.

Table of Contents

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
September 30, 2018

TABLE OF CONTENTS

	Page
<u>Part I—Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statement of Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>28</u>
<u>Part II—Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>29</u>
<u>Item 1A. Risk Factors</u>	<u>29</u>
<u>Item 2. Unregistered Sales of Equity and Use of Proceeds</u>	<u>29</u>
<u>Item 6. Exhibits</u>	<u>30</u>
<u>Signature</u>	<u>31</u>

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

Healthcare Realty Trust Incorporated
 Condensed Consolidated Balance Sheets
 (Amounts in thousands, except per share data)

	<i>(Unaudited)</i>	
	September 30, 2018	December 31, 2017
ASSETS		
Real estate properties:		
Land	\$ 217,322	\$ 201,283
Buildings, improvements and lease intangibles	3,669,852	3,601,460
Personal property	10,454	10,314
Construction in progress	26,960	5,458
Land held for development	24,645	20,123
	3,949,233	3,838,638
Less accumulated depreciation and amortization	(989,585)	(897,430)
Total real estate properties, net	2,959,648	2,941,208
Cash and cash equivalents	10,027	6,215
Assets held for sale, net	8,826	33,147
Other assets, net	222,582	213,015
Total assets	\$ 3,201,083	\$ 3,193,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$ 1,344,759	\$ 1,283,880
Accounts payable and accrued liabilities	72,927	70,995
Liabilities of properties held for sale	141	93
Other liabilities	43,004	48,734
Total liabilities	1,460,831	1,403,702
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value per share; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value per share; 300,000 shares authorized; 125,237 and 125,132 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,252	1,251
Additional paid-in capital	3,181,263	3,173,429
Accumulated other comprehensive income (loss)	473	(1,299)
Cumulative net income attributable to common stockholders	1,071,804	1,018,348
Cumulative dividends	(2,514,540)	(2,401,846)
Total stockholders' equity	1,740,252	1,789,883
Total liabilities and stockholders' equity	\$ 3,201,083	\$ 3,193,585

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Income
 For the Three and Nine Months Ended September 30, 2018 and 2017
 (Amounts in thousands, except per share data)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	\$ 111,452	\$ 105,078	\$ 331,247	\$ 311,171
Other operating	2,010	1,947	5,973	5,816
	113,462	107,025	337,220	316,987
EXPENSES				
Property operating	44,135	40,628	127,691	116,663
General and administrative	8,504	8,021	25,977	24,720
Acquisition and pursuit costs	141	507	538	1,878
Depreciation and amortization	42,061	35,873	121,764	105,148
Bad debts, net of recoveries	(62)	4	42	175
	94,779	85,033	276,012	248,584
OTHER INCOME (EXPENSE)				
Gain (loss) on sales of real estate assets	1,288	(7)	30,879	39,525
Interest expense	(13,464)	(14,107)	(39,202)	(42,694)
Impairment of real estate assets	—	(5,059)	—	(5,387)
Interest and other income, net	41	354	571	396
	(12,135)	(18,819)	(7,752)	(8,160)
NET INCOME				
	\$ 6,548	\$ 3,173	\$ 53,456	\$ 60,243
Basic earnings per common share	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50
Diluted earnings per common share	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50
Weighted average common shares outstanding - basic	123,300	119,098	123,281	116,181
Weighted average common shares outstanding - diluted	123,352	119,181	123,336	116,277
Dividends declared, per common share, during the period	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Comprehensive Income
 For the Three and Nine Months Ended September 30, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
NET INCOME	\$6,548	\$3,173	\$53,456	\$60,243
Other comprehensive income:				
Interest rate swaps:				
Reclassification adjustments for losses included in net income (interest expense)	95	43	369	127
Gains arising during the period on interest rate swaps	374	—	1,403	—
Total other comprehensive income	469	43	1,772	127
COMPREHENSIVE INCOME	\$7,017	\$3,216	\$55,228	\$60,370

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statement of Equity
 For the Nine Months Ended September 30, 2018
(Dollars in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Net Income	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2017	\$ 1,251	\$3,173,429	\$ (1,299)	\$ 1,018,348	\$(2,401,846)	\$ 1,789,883
Issuance of common stock	—	464	—	—	—	464
Common stock redemptions	—	(719)	—	—	—	(719)
Share-based compensation	1	8,089	—	—	—	8,090
Net income	—	—	—	53,456	—	53,456
Reclassification adjustments for losses included in net income (interest expense)	—	—	369	—	—	369
Gains arising during the period on interest rate swaps	—	—	1,403	—	—	1,403
Dividends to common stockholders (\$0.90 per share)	—	—	—	—	(112,694)	(112,694)
Balance at September 30, 2018	\$ 1,252	\$3,181,263	\$ 473	\$ 1,071,804	\$(2,514,540)	\$ 1,740,252

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Cash Flows
 For the Nine Months Ended September 30, 2018 and 2017
 (Dollars in thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$53,456	\$60,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	121,764	105,148
Other amortization	2,113	3,056
Share-based compensation	8,090	7,496
Amortization of straight-line rent receivable	(3,599)	(4,867)
Amortization of straight-line rent liability	1,147	492
Gain on sales of real estate assets	(30,879)	(39,525)
Impairment of real estate assets	—	5,387
Equity from unconsolidated joint ventures (income)	(15)	—
Distributions from unconsolidated joint ventures	182	—
Provision for bad debts, net	42	175
Changes in operating assets and liabilities:		
Other assets	(6,891)	(6,037)
Accounts payable and accrued liabilities	5,908	(3,301)
Other liabilities	(638)	1,098
Net cash provided by operating activities	150,680	129,365
INVESTING ACTIVITIES		
Acquisitions of real estate	(67,445)	(72,934)
Development of real estate	(21,059)	(11,753)
Additional long-lived assets	(59,802)	(52,305)
Proceeds from sales of real estate	64,271	119,425
Proceeds from notes receivable repayments	8	15
Net cash used in investing activities	(84,027)	(17,552)
FINANCING ACTIVITIES		
Net borrowings (repayments) on unsecured credit facility	56,000	(107,000)
Repayments of notes and bonds payable	(3,808)	(4,654)
Dividends paid	(112,694)	(104,860)
Net proceeds from issuance of common stock	459	248,384
Common stock redemptions	(2,673)	(1,125)
Debt issuance and assumption costs	(125)	(84)
Net cash (used in) provided by financing activities	(62,841)	30,661
Increase in cash and cash equivalents	3,812	142,474
Cash and cash equivalents at beginning of period	6,215	54,507
Cash and cash equivalents at end of period	\$10,027	\$196,981
Supplemental Cash Flow Information:		
Interest paid	\$30,463	\$42,136
Invoices accrued for construction, tenant improvements and other capitalized costs	\$5,680	\$6,842
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	\$7,995	\$12,460
Capitalized interest	\$684	\$681

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

[Table of Contents](#)**Healthcare Realty Trust Incorporated****Notes to the Condensed Consolidated Financial Statements****September 30, 2018****(Unaudited)****Note 1. Summary of Significant Accounting Policies****Business Overview**

Healthcare Realty Trust Incorporated (the "Company") is a real estate investment trust ("REIT") that owns, leases, manages, acquires, finances, develops and redevelops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. As of September 30, 2018, the Company had gross investments of approximately \$3.9 billion in 201 real estate properties located in 27 states totaling approximately 14.8 million square feet. The Company provided leasing and property management services to approximately 11.1 million square feet nationwide.

Basis of Presentation

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. However, except as disclosed herein, management believes there has been no material change in the information disclosed in the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017. All material intercompany transactions and balances have been eliminated in consolidation.

This interim financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. In addition, the interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2018 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends, risks and uncertainties.

Use of Estimates in the Condensed Consolidated Financial Statements

Preparation of the Condensed Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Revenue from Contracts with Customers (Topic 606)

The Company recognizes certain revenue under the core principle of Topic 606. This requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Lease revenue is not within the scope of Topic 606. To achieve the core principle, the Company applies the five step model specified in the guidance. See the New Accounting Pronouncements section below for additional information.

Revenue that is accounted for under Topic 606 is segregated on the Company's Condensed Consolidated Statements of Income in the Other operating line item. This line item includes parking income, rental lease guaranty income, management fee income and other miscellaneous income. Below is a detail of the amounts by category:

<i>(in thousands)</i>	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
Type of Revenue	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Parking income	\$1,752	\$1,669	\$5,197	\$4,907
Rental lease guaranty	168	168	488	545
Management fee income	68	70	205	237

Miscellaneous

22	40	83	127
\$2,010	\$1,947	\$5,973	\$5,816

6

Table of Contents

The Company's three major types of revenue that are accounted for under Topic 606 that are listed above are all accounted for as the performance obligation is satisfied. The performance obligations that are identified for each of these items are satisfied over time and the Company recognizes revenue monthly based on this principle.

Reclassifications**Condensed Consolidated Statements of Income**

Certain reclassifications have been made on the Company's Condensed Consolidated Statements of Income. After the adoption of Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," the Company's dispositions have not met the updated definition to be reported as discontinued operations. The Company had some residual impact from properties that were identified as discontinued operations prior to the adoption of ASU 2014-08. These amounts are considered immaterial and have been reclassified for the prior year presentation on the Company's Condensed Consolidated Statements of Income.

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
<i>(in thousands)</i>				
EXPENSES				
Property operating expense	\$40,626	\$ 40,628	\$116,644	\$ 116,663
Bad debt, net	14	4	185	175
OTHER INCOME (EXPENSE)				
Gain on sales of properties	(7) (7) 39,519	39,525
INCOME FROM CONTINUING OPERATIONS	\$3,165	\$ 3,173	\$60,247	\$ 60,243
DISCONTINUED OPERATIONS				
Income (loss) from discontinued operations	\$8	\$ —	\$(9) \$ —
Gain on sales of properties	—	—	5	—
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	\$8	\$ —	\$(4) \$ —

New Accounting Pronouncements**Accounting Standards Update No. 2014-09 and No. 2015-14**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers," a comprehensive new revenue recognition standard that supersedes most existing revenue recognition guidance, including sales of real estate. This standard's core principle is that a company will recognize revenue when it transfers goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods and services. However, leasing contracts, representing the major source of the Company's revenues, are not within the scope of the new standard and will continue to be accounted for under other standards.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606); Deferral of the Effective Date." This standard was effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year.

The Company adopted this standard by using the full retrospective adoption method beginning on January 1, 2018. The Company's revenue-producing contracts are primarily leases that are not within the scope of this standard. As a result, the adoption of this standard did not have a material impact on the timing and measurement of the Company's

leasing revenues. The Company has determined that parking income, rental lease guaranty income and management fee income are within the scope of Topic 606. However, these items were determined to have the same pattern of revenue recognition that the Company had historically recognized. The Company reclassified these amounts along with all other items that are accounted for within the scope of Topic 606 into the Other operating line item on the Company's Condensed Consolidated Statements of Income. This line item historically contained the revenue associated with rental lease guaranty income, management fee income and other non-lease revenue. The Company reclassified parking income from rental income to other operating income.

Table of Contents

The following table represents the impact of the adoption of this standard on the Company's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017:

<i>(in thousands)</i>	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	As Reported	As Reclassified	As Reported	As Reclassified
REVENUES				
Rental income	\$ 106,561	\$ 105,078	\$ 315,519	\$ 311,171
Other operating	392	1,947	1,249	5,816
	\$ 106,953	\$ 107,025	\$ 316,768	\$ 316,987
OTHER INCOME (EXPENSE)				
Interest and other income, net	\$ 426	\$ 354	\$ 616	\$ 396
NET INCOME	\$ 3,173	\$ 3,173	\$ 60,243	\$ 60,243

Accounting Standards Update No. 2016-02, No. 2018-01 and No. 2018-11

In February 2016, the FASB issued ASU 2016-02, "Leases." In January 2018, the FASB issued ASU 2018-01, "Leases - Land Easement Practical Expedient for Transition to Topic 842," and in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11, "Leases - Targeted Improvements." These accounting standard updates are collectively referred to as "Topic 842."

Topic 842 provides several practical expedients that the Company expects to elect. These are (a) the package of practical expedients offered that allows an entity not to reassess upon adoption (i) whether an expired or existing contract contains a lease, (ii) lease classification related to expired or existing lease arrangements, and (iii) whether costs incurred on expired or existing leases qualify as initial direct costs, and (b) the practical expedient not to separate certain non-lease components, such as common area maintenance, from the lease component if (i) the timing and pattern of transfer are the same for the non-lease component and associated lease component, and (ii) the lease component would be classified as an operating lease if accounted for separately.

For lessees, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The Company expects that most of the leases where the Company is the lessee will be recorded on the Company's balance sheet as operating leases. These leases are primarily ground leases, but also include the Company's corporate office lease, management office leases in third party buildings and certain copier and postage machine leases. The impact to the Company's Consolidated Balance Sheets has not yet been determined. The Company is in the process of working with consultants to determine the appropriate discount rate required to calculate the present value of the future lease payments for ground leases that have lease terms longer than typical secured financing allows.

For lessors, the new standard requires a lessor to classify leases as either sales-type, direct-financing or operating. A lease will be treated as a sale if it is considered to transfer control of the underlying asset, to the lessee. A lease will be classified as direct-financing if risks and rewards are conveyed without the transfer of control. Otherwise, the lease is treated as an operating lease. Lessor accounting remains largely unchanged with some exceptions including the concept of separating lease and nonlease components. Nonlease components, such as common area maintenance, will be accounted for under Topic 606 and separated from the lease payments. However, the Company will elect the lessor

practical expedient allowing the Company to not separate these components when certain conditions are met. The Company does not expect a material impact from the adoption of Topic 842 related to leases where the Company is the lessor.

The new standard is effective for the Company on January 1, 2019. Topic 842 provides two transition alternatives. The Company expects to choose the optional transition method available to apply the guidance in Accounting Standards Codification Topic 840 in the comparative periods presented in the year Topic 842 is adopted. Topic 842 includes extensive quantitative and qualitative disclosures as compared to Topic 840, Leases, for both lessees and lessors. The Company is continuing to evaluate the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

Table of Contents

Accounting Standards Update No. 2016-13

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments. This update requires that financial statement assets measured at an amortized cost and certain other financial instruments be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2017-04

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." This update eliminates Step 2 of the goodwill impairment test. As such, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. This standard is effective for the Company for annual and interim periods beginning after December 15, 2019. The Company does not expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

Accounting Standards Update No. 2017-05

In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update defines an in-substance nonfinancial asset, unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing the sales of real estate, removes exceptions to the financial asset derecognition model and clarifies the accounting for contributions of nonfinancial assets to joint ventures. The Company adopted this standard as of January 1, 2018 on the full retrospective adoption method. The adoption of this standard did not have a material impact to the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2017-09

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation - Scope of Modification Accounting." This update provides guidance about which changes to the terms and conditions of share-based awards require an entity to apply modification accounting in Topic 718. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact to the Consolidated Financial Statements and related notes.

Table of Contents**Note 2. Real Estate Investments****2018 Acquisitions**

The following table details the Company's acquisitions for the nine months ended September 30, 2018:

<i>(Dollars in millions)</i>	Type ⁽¹⁾	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed ⁽²⁾	Cash Consideration ⁽³⁾	Real Estate	Other ⁽⁴⁾	Square Footage <i>(Unaudited)</i>
Seattle, Washington	MOB	5/4/18	\$ 7.8	\$ —	\$ 7.8	\$7.8	\$—	13,314
Denver, Colorado ⁽⁵⁾	MOB, OFC	5/18/18	25.0	(8.0)	16.6	25.1	(0.4)	187,861
Oklahoma City, Oklahoma	MOB	5/21/18	11.4	—	11.4	11.5	(0.1)	82,647
Seattle, Washington	MOB	6/29/18	26.2	—	26.2	26.7	(0.5)	86,942
Denver, Colorado	MOB	8/24/18	4.1	—	4.2	4.2	—	17,084
			\$ 74.5	\$ (8.0)	\$ 66.2	\$75.3	\$(1.0)	387,848

(1) MOB = medical office building; OFC = office

(2) The mortgage note payable assumed in the acquisition does not reflect the fair value premium totaling \$0.1 million recorded by the Company upon acquisition (included in Other).

(3) Cash consideration excludes prorations of revenue and expense due to/from seller at the time of the acquisition.

(4) Includes other assets acquired, liabilities assumed, intangibles recognized at acquisition and fair value adjustments on debt assumed.

(5) Includes two properties.

2018 Dispositions

The following table details the Company's dispositions for the nine months ended September 30, 2018:

<i>(Dollars in millions)</i>	Type ⁽¹⁾	Date Disposed	Sales Price	Closing Adjustments	Net Proceeds	Net Real Estate Investment	Other (including receivables) ⁽²⁾	Gain	Square Footage <i>(Unaudited)</i>
Virginia ^{(3) (4)}	MOB, OFC	4/26/18	\$46.2	\$ —	\$ 46.2	\$ 23.9	\$ —	\$22.3	460,881
Michigan ^{(3) (5)}	SNF	6/27/18	9.5	(0.7)	8.8	3.4	—	5.4	121,672
Missouri	MOB	8/30/18	9.8	(0.5)	9.3	7.5	0.5	1.3	70,893
Total dispositions			\$65.5	\$ (1.2)	\$ 64.3	\$ 34.8	\$ 0.5	\$29.0	653,446

(1) MOB = medical office building; OFC = office; SNF = skilled nursing facility

(2) Includes straight-line rent receivables and leasing commissions.

(3) Previously classified as held for sale.

(4) Includes seven properties, comprised of five single-tenant net lease buildings and two multi-tenant buildings. These buildings were sold pursuant to the exercise of a fixed-price purchase option.

(5) Includes five skilled nursing facilities. Sales price includes \$0.5 million of forfeited earnest money from a prior terminated transaction.

Non-monetary Exchange

On June 29, 2018, the Company completed the swap of a non-revenue producing garage that was built by the Company in 2012 located in Denver, Colorado for 20.5 acres of land adjacent to the Catholic Health Initiative's St. Anthony Hospital campus. A portion of this land, approximately 4.6 acres, has been allocated to an existing medical office building that was developed by the Company in 2017. This building is located on land previously ground leased from the hospital. The remaining land has been recorded in land held for development. The land acquired was appraised for \$5.8 million. The Company had a net investment of \$3.9 million in the parking garage and recognized a gain of \$1.9 million in connection with this transaction.

Table of Contents**Assets Held for Sale**

As of December 31, 2017, the Company had eight properties classified as held for sale. The following changes to assets held for sale have occurred during 2018:

The Company reclassified five single-tenant net leased properties to held for sale as of March 31, 2018.

In April 2018, the Company sold seven properties, comprised of five single-tenant net leased properties and two multi-tenanted properties. The Company recognized a gain on disposition of approximately \$22.3 million.

In June 2018, the Company sold five single-tenant net leased properties. The Company recognized a gain on disposition of approximately \$5.4 million.

As of September 30, 2018, the Company had one property remaining classified as held for sale.

The table below reflects the assets and liabilities of the properties classified as held for sale as of September 30, 2018 and December 31, 2017:

<i>(Dollars in thousands)</i>	September 30, 2018	December 31, 2017
Balance Sheet data:		
Land	\$ 1,125	\$ 4,636
Buildings, improvements and lease intangibles	18,231	63,654
Personal property	—	82
	19,356	68,372
Accumulated depreciation	(10,657)	(35,790)
Real estate assets held for sale, net	8,699	32,582
Other assets, net	127	565
Assets held for sale, net	\$ 8,826	\$ 33,147
Accounts payable and accrued liabilities	\$ 119	\$ 38
Other liabilities	22	55
Liabilities of properties held for sale	\$ 141	\$ 93

Table of Contents**Note 3. Notes and Bonds Payable**

The table below details the Company's notes and bonds payable.

	Maturity Dates	Balance as of		Effective Interest Rate as of	
		September 30, 2018	December 31, 2017	September 30, 2018	
<i>(Dollars in thousands)</i>					
Unsecured Credit Facility	7/20	\$245,000	\$189,000	3.26	%
Unsecured Term Loan Facility, net of issuance costs ⁽¹⁾	12/22	149,132	148,994	3.41	%
Senior Notes due 2023, net of discount and issuance costs	4/23	248,013	247,703	3.95	%
Senior Notes due 2025, net of discount and issuance costs ⁽²⁾	5/25	248,219	248,044	4.08	%
Senior Notes due 2028, net of discount and issuance costs	1/28	295,087	294,757	3.84	%
Mortgage notes payable, net of discounts and issuance costs and including premiums	12/18-5/40	159,308	155,382	4.83	%
		\$1,344,759	\$1,283,880		

(1) The effective interest rate includes the impact of interest rate swaps on \$25.0 million and \$50.0 million of the outstanding balance at a rate of 2.18% and 2.46%, respectively (plus the applicable margin rate, currently 110 basis points).

(2) The effective interest rate includes the impact of the \$1.7 million settlement of a forward-starting interest rate swap that is included in Accumulated other comprehensive income (loss) on the Company's Condensed Consolidated Balance Sheets.

Table of Contents**Note 4. Derivative Financial Instruments****Risk Management Objective of Using Derivatives**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated other comprehensive income (loss) and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in Accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

As of September 30, 2018, the Company had four outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Derivative Instrument	Number of Instruments	Notional Amount (in millions)
Interest rate swaps	4	\$75.0

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the Condensed Consolidated Balance Sheet as of September 30, 2018.

<i>(Dollars in thousands)</i>	Asset Derivatives	
	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments		
Interest rate swaps	Other assets	\$1,579
Total derivatives designated as hedging instruments		\$1,579

Tabular Disclosure of the Effect of Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income (Loss)

The table below presents the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income (Loss) ("OCI") during the nine months ended September 30, 2018 and 2017 related to the Company's outstanding

interest rate swaps.

	Amount of Gain Recognized in OCI on Derivative	Amount of Loss Reclassified from OCI into Income
<i>(Dollars in thousands)</i> 2018	2018	2018